

**Hiawathaland Library Cooperative**

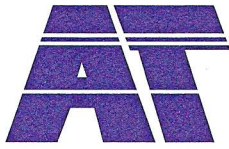
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**BASIC FINANCIAL STATEMENTS  
AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

**September 30, 2008**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Hiawathaland Library Cooperative  
Sault Ste. Marie, Michigan 49783

We have audited the accompanying financial statements of the governmental activities, major fund, and aggregate remaining fund information of the Hiawathaland Library Cooperative, as of and for the year ended September 30, 2008, which collectively comprise the Hiawathaland Library Cooperative's basic financial statements as listed in the Table of Contents. These basic financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major fund, and the aggregate remaining fund information of the Hiawathaland Library Cooperative, as of September 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the cooperative will continue as a going concern. As discussed in Note 8 to the financial statements, the cooperative's member libraries all withdrew their memberships with the cooperative. As a result the cooperative will no longer receive its state funding. This raises doubts about its ability to continue to exist as a going concern. Management's plans in regards to these matters are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Management's Discussion and Analysis as listed in the table of contents and the budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in blue ink that reads "Anderson Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

October 30, 2008

## **Management's Discussion and Analysis**

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**Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Library's operations in more detail than the government-wide financial statements.

**The Library as a Whole**

The Library's combined net assets increased .8% from a year ago increasing by \$1,015. In a condensed format, the table below shows a comparison of the net assets as of the current date.

	Governmental Activities <u>2007</u>	Governmental Activities <u>2008</u>
Current Assets	\$ 138,083	\$ 139,059
Capital Assets	<u>1,045</u>	<u>-</u>
Total Assets	<u>\$ 139,128</u>	<u>\$ 139,059</u>
Current Liabilities	<u>\$ 11,536</u>	<u>\$ 10,452</u>
Total Liabilities	<u>11,536</u>	<u>10,452</u>
Net Assets		
Invested in Capital Assets	1,045	-
Unrestricted (Deficit)	<u>126,547</u>	<u>128,607</u>
Total Net Assets	<u>\$ 127,592</u>	<u>\$ 128,607</u>

The current level of unrestricted net assets for our governmental activities stands at \$128,607, or about 182% of expenses. This is within the targeted range set by the Library Board of Directors during its last budget process.

The following table shows the activities of the Library.

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2008</u>
General Revenues		
State Sources	\$ 83,881	\$ 68,401
Local Sources	20,900	138
Investment Income	<u>3,678</u>	<u>3,058</u>
Total Revenues	<u>108,459</u>	<u>71,597</u>
Program Expenses		
Recreation and Culture	<u>103,793</u>	<u>70,582</u>
Total Expenses	<u>103,793</u>	<u>70,582</u>
Changes in Net Assets	4,666	1,015
Net Assets – Beginning	<u>122,926</u>	<u>127,592</u>
Net Assets – Ending	<u>\$ 127,592</u>	<u>\$ 128,607</u>

**The Library's Funds**

Our analysis of the Library's major fund begins on page 9, following the entity wide financial statements. The fund financial statements provide detailed information about the most significant fund, not the Library as a whole. The Library Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's major fund for 2008 was the General Fund.

**Capital Asset and Debt Administration**

At the end of 2008, the Library had \$0 invested in capital assets. Capitalization acquisitions were \$0 in the current fiscal year.

**GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES****General Fund Revenue Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual &amp; Original Budget</u>	<u>Revenues Variance Actual &amp; Final Budget</u>
2003 – 2004	105,485	118,697	127,826	22,341	9,129
2004 – 2005	105,485	100,005	96,702	(8,783)	(3,303)
2005 – 2006	92,083	93,003	93,332	(1,249)	329
2006 – 2007	88,831	88,831	108,495	19,664	19,664
2007 – 2008	73,080	73,080	71,597	(1,483)	(1,483)

**General Fund Expenditures Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual &amp; Original Budget</u>	<u>Expenditures Variance Actual &amp; Final Budget</u>
2003 – 2004	133,722	147,425	109,332	24,390	38,093
2004 – 2005	133,722	116,633	98,284	35,438	18,349
2005 – 2006	101,778	100,837	96,890	4,888	3,947
2006 – 2007	96,665	96,665	102,748	(6,083)	(6,083)
2007 – 2008	78,641	78,641	69,537	9,104	9,104

**Original vs. Final Budget:**

As a matter of practice, Hiawathaland Library Cooperative generally amends its budget during the year; however, for the fiscal year 2007-2008, the budget was not amended throughout the year.

**Economic Factors and Next Year's Budget**

The preliminary budget for the 2008-09 will be a partial year because the Co-op will discontinue operations in late December or early January (See note 8 for more information). These estimates and assumptions were based on current information available to the board and management.



**Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Library's finances and to show the Library's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Hiawathaland Library Cooperative, 541 Library Drive, Sault Ste. Marie, MI 49783, (906) 632-4342.

## **Basic Financial Statements**

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# Hiawathaland Library Cooperative

## Statement of Net Assets September 30, 2008

	Governmental Activities
<b>ASSETS:</b>	
<b>Current Assets</b>	
Cash & Equivalents - Unrestricted	\$ 120,141
Accounts Receivable	8,104
Prepaid Expenses	10,814
	<hr/>
Total Current Assets	139,059
	<hr/>
<b>Noncurrent Assets</b>	
Capital Assets, (net of Accumulated Depreciation)	-
	<hr/>
TOTAL ASSETS	\$ 139,059
	<hr/> <hr/>
<b>LIABILITIES AND NET ASSETS:</b>	
<b>Current Liabilities</b>	
Accounts Payable	\$ 10,452
	<hr/>
TOTAL CURRENT LIABILITIES	10,452
	<hr/> <hr/>
<b>NET ASSETS:</b>	
Unrestricted	128,607
	<hr/>
TOTAL NET ASSETS	\$ 128,607
	<hr/> <hr/>

# Hiawathaland Library Cooperative

## Statement of Activities For the Year Ended September 30, 2008

Functions/Programs	Program Expenses	Program Revenues Operating Grants	Governmental Activities
			Net (Expense) Revenue and Changes in Net Assets
<b>Governmental Activities:</b>			
Recreation & Culture	\$ 70,582	\$ 68,401	\$ (2,181)
Total Governmental Activities	<u>\$ 70,582</u>	<u>\$ 68,401</u>	(2,181)
<b>General Revenues:</b>			
Local Sources			138
Investment Earnings (Loss)			<u>3,058</u>
Total General Revenues			<u>3,196</u>
<b>Changes in Net Assets</b>			1,015
Net Assets - Beginning			<u>127,592</u>
Net Assets - Ending			<u>\$ 128,607</u>

# Hiawathaland Library Cooperative

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## Balance Sheet Governmental Fund September 30, 2008

	General Fund
<b>ASSETS:</b>	
Cash & Equivalents - Unrestricted	\$ 120,141
Accounts Receivable	8,104
Prepaid Expenses	10,814
TOTAL ASSETS	<u>\$ 139,059</u>
<b>LIABILITIES:</b>	
Accounts Payable	<u>\$ 10,452</u>
TOTAL LIABILITIES	<u>10,452</u>
<b>FUND BALANCES:</b>	
Unreserved and Undesignated	<u>128,607</u>
TOTAL FUND BALANCES	<u>128,607</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 139,059</u>

**Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Assets  
September 30, 2008**

Total fund balances – governmental funds \$ 128,607

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Property and equipment	\$ 36,319
Accumulated depreciation	<u>(36,319)</u>

Total capital assets	<u>-</u>
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Net assets of governmental activities	<u>\$ 128,607</u>
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# Hiawathaland Library Cooperative

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## Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund For the Year Ended September 30, 2008

	General Fund
<b>REVENUES:</b>	
State Sources	\$ 68,401
Local Sources	138
Interest	3,058
	<hr/>
TOTAL REVENUES	71,597
	<hr/>
<b>EXPENDITURES:</b>	
Recreation & Culture	69,537
	<hr/>
TOTAL EXPENDITURES	69,537
	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,060
FUND BALANCES, OCTOBER 1	126,547
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FUND BALANCES, SEPTEMBER 30	\$ 128,607
	<hr/> <hr/>

## Hiawathaland Library Cooperative

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### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended September 30, 2008

Net changes in fund balances - total governmental funds	\$ 2,060
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$1,045) exceeded capital outlays (\$ 0).

(1,045)
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Changes in net assets of governmental activities
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\$ 1,015
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# Hiawathaland Library Cooperative

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## Statement of Fiduciary Net Assets Fiduciary Fund September 30, 2008

	<u>Agency Fund</u> <u>Lilja Trust</u> <u>Fund</u>
<b>ASSETS:</b>	
Cash & Equivalents - Restricted	<u>\$ 8,677</u>
 TOTAL ASSETS	 <u><u>\$ 8,677</u></u>
<b>LIABILITIES:</b>	
Held in Trust for Endowments	<u>\$ 8,677</u>
 TOTAL LIABILITIES	 <u><u>\$ 8,677</u></u>

## **Notes to Financial Statements**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the Library:

**A – Reporting Entity**

Hiawathaland Library Cooperative is a governmental unit created under Public Act 89 of 1977 of the State of Michigan. Library cooperatives were designed to provide services to member libraries, such as materials or grants for materials, inter-library loan services, continuing education programs, help in upgrading services and technology, and consultation. Hiawathaland Library Cooperative has eight member libraries and is governed by a Board of Trustees, appointed by local governing authorities. The nine member Board of Trustees represents the member libraries and various communities of the Cooperative. Hiawathaland's member libraries include: Bayliss Public Library, DeTour School-Public Library, Rudyard School-Public Library, St. Ignace Public Library, Tahquamenon School-Public Library, Whitefish Township Public Library, Manistique School-Public Library and Mackinac Island Public Library. As of August 1, 2008 these member libraries withdrew from the Co-op (See Note 8).

**B – Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C – Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due. All other revenue items are considered to be available only when cash is received by the government.

The Library reports the following major governmental fund:

**General Fund** – This is the Library’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue.

**D - Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances.”

All trade and grant receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital Assets – Capital assets, which include property, plant, and equipment, infrastructure assets (e.g., equipment and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets are items with an individual cost of \$500 or more. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Long-Term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Balance – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each September, after receiving input from the individual departments, the Board of Trustees prepares a proposed operating budget for the fiscal period commencing October 1 and lapses on September 30. The operating budget includes proposed expenditures and the means of financing them.

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to October 1, the budget is legally enacted through a resolution passed by the Board.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Directors. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The Library does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 (the Budgeting Act) requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted.

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

**NOTE 3 - CASH AND EQUIVALENTS**

At year end, the Library's cash and equivalents were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Cash and Equivalents:		
- Unrestricted	\$ 120,141	\$ -
- Restricted	<u>-</u>	<u>8,677</u>
Total	<u>\$ 120,141</u>	<u>\$ 8,677</u>

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

The breakdown for deposits are as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>
Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 120,141	\$ 8,677
Total	<u>\$ 120,141</u>	<u>\$ 8,677</u>

**Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The Library has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$0 of the Library's bank balance of \$128,818 was exposed to credit risk because it was uninsured and uncollateralized.

**Statutory Authority:**

Michigan Law (Public Act 20 of 1943 as amended) authorizes the Library to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.

**NOTE 3 - CASH AND EQUIVALENTS (Continued)**

- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the primary government for the current year was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Disposals/ Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<i>Capital assets being depreciated:</i>				
Furniture, fixtures and equipment	\$ 105,064	\$ -	\$ (68,745)	\$ 36,319
Subtotal	<u>105,064</u>	<u>-</u>	<u>(68,745)</u>	<u>36,319</u>
<i>Less accumulated depreciation for:</i>				
Furniture, fixtures and equipment	<u>(104,019)</u>	<u>(1,045)</u>	<u>68,745</u>	<u>(36,319)</u>
Subtotal	<u>(104,019)</u>	<u>(1,045)</u>	<u>68,745</u>	<u>(36,319)</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 1,045</u>	<u>\$ (1,045)</u>	<u>\$ -</u>	<u>\$ -</u>
Depreciation Expense for Governmental Activities:				
Recreation and Culture			<u>\$ 1,045</u>	



**NOTE 5 - CONTINGENT LIABILITIES**

The Hiawathaland Library Cooperative receives significant financial assistance from state agencies in the form of grants. The disbursement of funds from the various programs generally requires compliance with terms and conditions specified in the applicable grant agreement and is subject to examination by the grantor agency. Any disallowed claims resulting from such examination could become a liability of the Hiawathaland Library Cooperative.

**NOTE 6 - ECONOMIC DEPENDENCY**

Hiawathaland Library Cooperative receives the majority of their funding in the form of Direct State Aid from the State of Michigan. Funding is also received from member libraries in the form of Indirect State Aid. A decrease in or elimination of these funds would adversely affect the operation of the Cooperative.

**NOTE 7 - RELATED PARTIES**

The Hiawathaland Library Cooperative contracts with the Bayliss Public Library for staffing services. These are contracted services and the employees are all Bayliss Public Library employees subject to their personnel policies.

**NOTE 8 - GOING CONCERN**

The eight member libraries of the Hiawathaland Library Cooperative withdrew their membership as of August 1, 2008. As a result the cooperative lost its State Aid funding on that same date. This raises substantial doubt about the entity's ability to continue as a going concern. The Cooperative's management has decided to discontinue operations sometime in late December or early January.

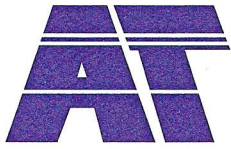
## **Required Supplementary Information**

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# Hiawathaland Library Cooperative

## Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended September 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES:				
State Sources	\$ 70,033	\$ 70,033	\$ 68,401	\$ (1,632)
Local Sources	-	-	138	138
Interest	2,447	2,447	3,058	611
Other	600	600	-	(600)
	-	-		
TOTAL REVENUES	73,080	73,080	71,597	(1,483)
EXPENDITURES:				
Recreation and Culture:				
Contracted Services	34,644	34,644	35,512	(868)
Office Supplies	200	200	731	(531)
Postage	1,800	1,800	1,691	109
Books	9,666	9,666	1,081	8,585
Audio Visual	6,700	6,700	3,383	3,317
Magazines	4,000	4,000	4,829	(829)
Contractual Services	6,500	6,500	11,135	(4,635)
Audit	2,150	2,150	2,700	(550)
Board Meetings / Travel	1,900	1,900	1,168	732
Staff Travel	4,000	4,000	1,785	2,215
Equipment Repairs	100	100	-	100
Photocopy Expenses	-	-	251	(251)
Rent	2,000	2,000	2,000	-
Professional Development	305	305	200	105
Member Library Development	4,200	4,200	3,043	1,157
Other Expenditures	476	476	28	448
Total Recreation and Culture	78,641	78,641	69,537	9,104
TOTAL EXPENDITURES	78,641	78,641	69,537	9,104
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (5,561)	\$ (5,561)	2,060	\$ 7,621
FUND BALANCE, OCTOBER 1			126,547	
FUND BALANCE, SEPTEMBER 30			\$ 128,607	



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

Board of Trustees  
Hiawathaland Library Cooperative  
Sault Ste. Marie, MI 49783

We have audited the financial statements of the governmental activities, major fund, and the aggregate remaining fund information of the Hiawathaland Library Cooperative for the year ended September 30, 2008, and have issued our report thereon dated October 30, 2008. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated October 26, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on October 26, 2008.

**Significant Accounting Policies**

***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Hiawathaland Library Cooperative are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the depreciation expense based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determine that it is reasonable in relation to the financial statements taken as a whole.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### ***Disagreement with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 30, 2008.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Comments and Recommendations***

**Accruals (Repeat)**

Currently, the Hiawathaland Library Cooperative records financial statements information using the cash basis of accounting, while U.S. generally accepted accounting principles requires that the modified accrual basis of accounting be used. Hiawathaland Library Cooperative should use the modified basis of accounting for the financial statements.

Status: Corrected.

**Accounts Payables (Repeat)**

Accounts payable per the general ledger should be reconciled monthly to the bills that are outstanding at month end. Proper payable accruals should be posted to the organization's general ledger to reflect accrual accounting.

Status: Corrected.

**Prepays (Repeat)**

Prepays should be reviewed and adjusted monthly.

Status: Partly corrected.

**Budgets (Repeat)**

The Cooperative received a grant for equipment during the year and did not amend the budget to reflect this activity. Care must be taken to continually monitor and adjust the budget as events change.

Status: Not corrected.

**Bank Reconciliations (Repeat)**

The year end bank reconciliations were not formally prepared to reflect the reconciliation of the bank balance to the general balances. Care must be taken to have these reconciliations performed timely and in accordance with the formal reconciliation procedures.

Status: Not Corrected.

**Board Directives (Repeat)**

The Board needs to formally approve all expenditures or appoint a board member to do so on its behalf prior to any expenditure payments made.

Status Not Corrected.

**Fraud Policy (Repeat)**

With the implementation of Statement on Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The Board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Status: Not corrected.

**Conclusion**

This information is intended solely for the use of the Board of Trustees and management and is not intended to be and should not be used for anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

October 30, 2008